



## Department of Human Services

Incorporating: Health, Community Services, Mental Health, Senior Victorians and Housing

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OUR REF:

YOUR REF:

14<sup>th</sup> May 2009

Australian Accounting Standards Board  
Level 7  
600 Bourke Street  
Melbourne, VIC 3000  
Australia

Dear Sir,

Comments on Exposure Draft 174

The Department is the main funding agency of public hospitals in Victoria and hence a major user of annual reports published by these hospitals. The annual reports being audited are used by the Department for various purposes such as for assessment and policy development.

We have concerns with the proposed changes and implications as set out in the exposure draft. Our concerns are detailed below:

1. Currently public hospital's financial statements are presented in accordance with AASB 101. This allows hospitals to report Net Result before Capital & Specific Items and Net Result for the Period.
2. The Net Result before Capital and Specific Items compares all operating revenue with operating expenditure and excludes Impairment of financial assets (such as CDOs, Shares and Property Trusts) which has been reported as specific items and so do not impact on this result.
3. The Net Operating Result, which includes capital income and expenditure, is not used for public comment by the Department of Human Services in Victoria because of the unevenness of the distribution of capital revenue which distorts the Net Result from year to year. This result does not present fairly the financial performance of the hospitals.
4. Victorian Auditor-General supports the presentation of operating results as described in 2 and 3 above.
5. The users of a public hospital's annual report are generally:
  - State Government and agencies
  - Hospital Boards
  - Charitable organisations and auxiliaries

- Community groups in the hospital catchment
- Media Organisations

The public hospital's annual reports are general purpose financial reports catering to the above users and the general public through the media. The current presentation of reporting capital purpose and specific items below the Net Result before Capital & Specific Items line satisfies the users' expectation of separating these items from recurrent funding and expenditure for operating activities. This presentation provides the appropriate financial performance measurement on recurrent primary activities over which the hospital board and management have substantive control.

6. ED 174 proposes to split Net Result into 'transactions' and 'other economic flows'. Under this proposed presentation, capital grants, depreciation, expenditure using (funded by) capital purpose income and perhaps assets received free of charge would be classed as 'transactions' in the operating statement. The presentation distorts or masks the underlying net result with these items included as it prohibits the matching of operating revenue with operating expenditure without capital purpose income, depreciation and specific items (items of a once-off or unusual nature).

For reasons given above we object to the proposed split of Net Result into 'transactions' and 'other economic flows'. We do not believe this proposal enhances or improves upon the usefulness of the operating statement currently in use by the public hospitals.

Yours sincerely



Bruce Woolcott  
Director  
Finance Branch  
Department of Human Services